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Background

On 12 May 2020, the honorable prime minister announced a Special Economic and Comprehensive Package (SECP) of INR 20,000 billion (approximately US\$ 265 billion) – equivalent to 10% of India’s GDP – as a continuation of the various measures announced to lessen the burden of COVID-19 on the economy. As part of the SECP, the government, on 13 May 2020, announced a reduction in the rate of monthly social security contributions, which are also referred to as provident fund (PF) contributions, for both employers and employees. The government has also issued a notification on 18 May 2020 to this effect.

What is the change?

Change in statutory employee EPF contribution rates: Employer’s and employee’s share of PF contributions for applicable establishments reduced from the existing 12% rate to 10% for the next three months.

Applicability: The reduced rate is applicable for the wage months of May, June, and July 2020 to all classes of establishments covered under the Employees’ Provident Funds and Miscellaneous Provisions Act, 1952 unless specifically excluded.

Exclusions: Central and state public sector enterprises or any other establishments owned or controlled by or under control of the central or state government are excluded from the rate reduction. These establishments shall continue to contribute 12% of basic wages and dearness allowances as employer contributions while employees can choose to contribute at the lower rate of 10%. The reduced employee PF contribution rate shall also not apply to establishments covered by the special scheme announced in March 2020 (Pradhan Mantri Garib Kalyan Yojana, or PMGKY), since the entire contributions spanning both that by the employer and employee and totaling to 24% of the monthly wages are being contributed by the central government until August 2020.

What does the change mean?

Non-government employee PF covered establishments that are not entitled to the benefit of PMGKY now have an option to contribute at the reduced rate of 10% of pay for three months from May 2020 to July 2020.

Deloitte's view

The government has reduced the statutory rate of PF contributions with the intent to reduce the employer's cost on PF, as well as increase the take-home pay of employees. While the measure is intended to help employers tide over the immediate cash-flow situation, this would depend on the contractual arrangement with the employees. Hence, companies need to decide either to continue to contribute at 12% or reduce their contributions to the statutory level of 10%, keeping in mind the existing contractual terms with their employees / consent obtained, the impact on retirement benefits, the potential tax implications for employees, and the administrative challenges of changing the payroll system for a short period of time.

International workers and exempt establishments (*i.e.*, establishments administering their in-house private PF trusts) would also be covered by the change.

The government also released a set of frequently asked questions on 20 May 2020, providing additional options for the rate of contribution for employers and employees.

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